THE FOREST INDUSTRY SNAPSHOT:

Ministry of Forests, Lands and Natural Resource Operations

March 2011

A Selection of Monthly Economic Statistics

BRITISH COLUMBIA
The Best Place on Earth

Points of interest:

Japan's Economy

It will take some time to be able to fully assess the impact of the recent earthquake and tsunami catastrophe on Japan's economy.

Japan's national debt and budget deficit will now worsen considerably as the Central Bank pumps a huge amount of money to the market to rebuild the country after the disaster.

Japan's exports will be significantly reduced and this will weaken the economic growth as a whole.

Nevertheless, Japan's paper and wood imports are likely to grow in reconstruction efforts. Japan's demand for B.C. lumber, especially for some coastal species, is expected to grow in the near future.

Trade mission to China

Jobs, Tourism and Innovation Minister Pat Bell led a March 27-31 trade mission to Beijing to show the Chinese housing industry the green benefits of building with wood. Minister Bell and Chinese officials opened the Green Home Canada building in Beijing together. Green Home Canada is a special demonstration project to highlight advantages of using pre-fabricated components to build low-rise apartments.

The Chinese government recently announced its new five-year plan, which calls for an additional 36 million affordable housing units, 10 million each in 2011 and 2012. The Chinese government has also said it wants to reduce its carbon footprint by using more renewable resources such as wood.

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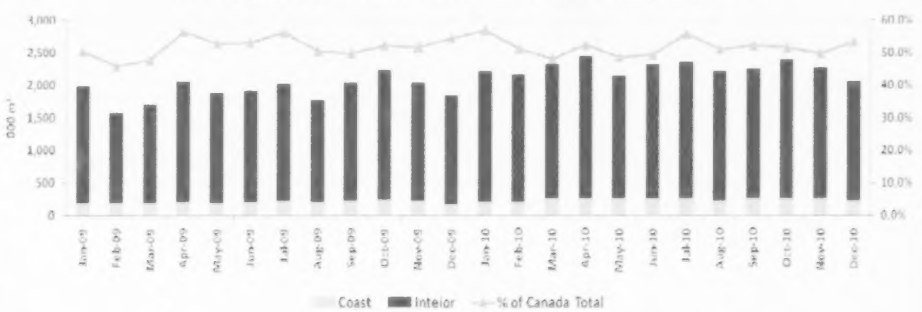
SOFTWOOD LUMBER MARKET

U.S. Housing Starts* and SPF 2x4 Prices

B.C. Softwood Lumber Production and Shares of Canada Total



Data sources: Madison's, US Census Bureau and Statistics Canada. * private-owned housing starts.

- **U.S. privately-owned housing starts declined by 22.5%** in **February** to a seasonally adjusted rate of **479,000** from January. This is **20.8% lower** than the rate one year ago. Although the U.S. economy has seen recent growth, concerns about a growing number of factors (e.g. continued high unemployment rates) have caused builders to **pull back** on the production of new homes.
- **Lumber prices declined slightly** in February, likely caused by seasonal factors (e.g. slightly reduced lumber demand during the Chinese New Year). **SPF 2x4s** averaged **USD$291, down 6.6%** from January 2011. Lumber prices were lower in Canadian dollars (SPF 2x4s averaged **CAD$ 287** in February) due to **historically high exchange rates**. The Canadian dollar has been worth more than the U.S. dollar since January 2011.
- **In 2010, B.C. softwood lumber production totalled 27.0 million m³, up 17.5%** from 2009. B.C. had a larger increase than the rest of Canada, accounting for **52.5%** of Canada's total softwood lumber production in **2010.**
- **In January 2011, B.C. softwood lumber export value** totalled **$264.7 million, up 23.8%** from Jan. 2010. **B.C. softwood lumber export volume** totalled **1.50 million m³, up 9.5%** from Jan. 2010. The **top 3 destinations** for softwood lumber exports were: **U.S.** (value: 47.1%; volume: 55.5%), **China** (value: 23.2%; volume: 26.0%) and **Japan** (value: 17.1%; volume:10.8%).

Common Abbreviations:
YTD- year to date
M/M - % change from the previous to current month
Y/Y- % change from the same month in the previous year to the current year
SAAR- Seasonally Adjusted Annual Rates
China- refers to China, including Hong Kong

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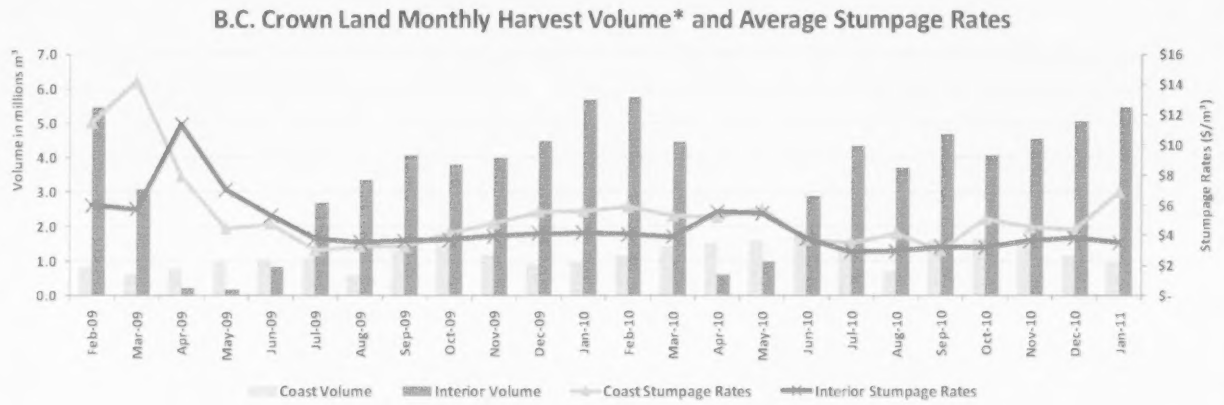
HARVESTING



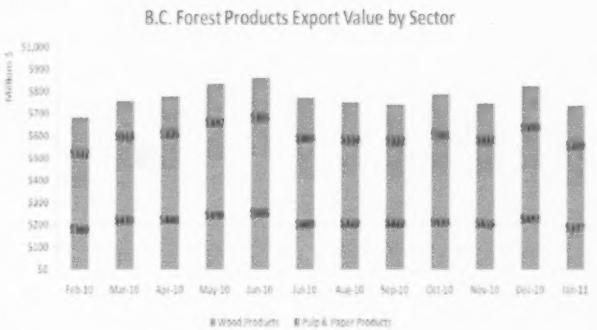
Data source: Harvest Billing System of Ministry of Forests, Lands and Natural Resource Operations.

**Based on scale dates, all logs (BCTS & Major), special forest products, species and grades billed to crown land excluding waste, reject and Christmas trees. Data in recent months is subject to change.*

COAST Total harvest volume for **all land** (including crown, private and federal) was **0.99 million m³** in Jan. 2011, **up 3.9%** from Jan. 2010. **Crown** land harvest volume (including major tenures, Timber Licences and BCTS) was **0.60 million m³, down 9%** from Jan. 2010. The average stumpage rate was **$6.87 per m³** in Jan. 2011, **up 22.3%** from Jan. 2010, mainly due to higher BCTS stumpage rates (averaged at $25.45 in Jan. 2011, 29.5% higher than the rate in Jan. 2010) and BCTS's higher share of the total volume (BCTS accounted for 23% of the total harvest volume for coast crown land in Jan. 2011, and it was 17% in Jan. 2010). Higher stumpage rates were caused by the higher log prices due to the recovery of log market.

INTERIOR Total harvest volume for **all land** (including crown, private and federal) was **5.45 million m³** in Jan. 2011, **down 4.1%** from Jan. 2010. **Crown** land harvest volume (including major tenures, Timber Licences and BCTS) was **5.38 million m³, down 3.4%** from Jan. 2010. The average stumpage rate was **$3.52 per m³** in Jan. 2011, **down 15.4%** from Jan. 2011. BCTS accounted for 18% of the total harvest volume for interior crown land in Jan. 2011.

EXPORTS



Data source: BC Stats.

B.C. forest product exports totalled **$736 million** in January 2011, **down 10.5%** m/m and **up 20.7%** YTD from 2010:

- **Wood product exports** totalled **$377 million** in January, **down 16.6%** m/m and **up 18.1%** YTD from 2010; and
- **Pulp & paper products** totalled **$359 million** in January, **down 3.0%** m/m and **up 23.7%** YTD from 2010.
- Shares by product in January 2011: **Softwood Lumber** (36.0%), **Logs** (4.0%), **Other Wood Products** (11.3%), **Pulp** (37.6%) and **Other Pulp & Paper Products** (11.1%).

In January 2011, the destination with the **largest share of B.C. forest products export value** was the **U.S.** at **39.4%**, while **China** accounted for **31.1%, Japan** accounted for **10.6%** and other destinations accounted for 18.9%.

- Exports to **China** totalled **$229 million, up 117%** from Jan. 2010.
- Exports to **U.S.** totalled **$290 million, down 1%** from Jan. 2010.
- Exports to **Japan** totalled **$78 million**, at **the same level** as Jan. 2010.

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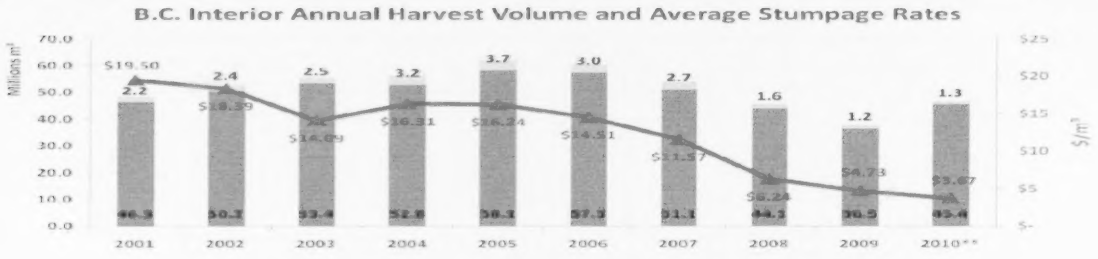
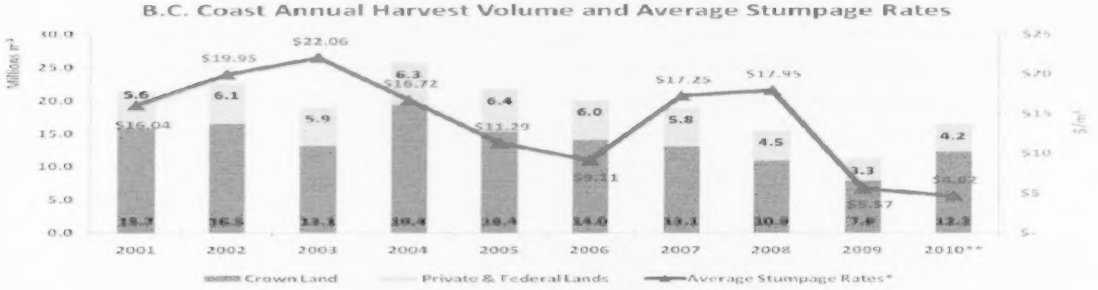
A Closer Look at Harvest & Stumpage



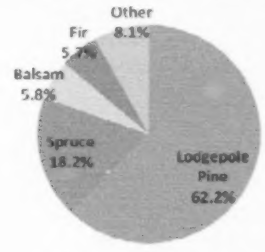


Data Source: Harvest Billing System, all logs, special forest products, species and grades billed excluding waste, reject and Christmas trees.
*defined as (Stumpage revenue collected / volume scaled and billed) for crown land. ** preliminary data and subject to change.

B.C.'s Coast and Interior regions have very different characteristics in terms of harvesting activities.

For the Interior, over 95% of the harvest occurred on crown land. The harvest volume peaked at **62 million m³ in 2005** due to the favourable lumber market conditions, it then **dropped significantly in 2008/09** due to the weak lumber market caused by the collapsed U.S. housing market. **In 2010**, the harvest volume totalled **47 million m³**, **up 23%** from 2009 due to the recovery. Average stumpage rates have been dropping from **over $16 per m³ in 2004 to under $4 per m³ in 2010** due to the effects of the economic downturn and the Mountain Pine Beetle Epidemic.

Species Mix for 2010 B.C. Interior Harvest (46.7 mil. m³)



The **dominant species** harvested in the interior were **Lodgepole pine,** with a **62.2%** share of interior total scaled volume in 2010, followed by **Spruce** (18.2%), **Balsam** (5.8%), **Fir** (5.7%) and other species.

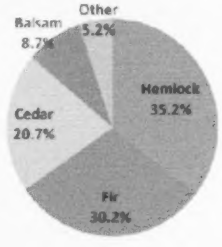
On the grade side, **Sawlog grades** (Grade 1 & 2) accounted for **48.7%** of the total interior harvest in 2010, followed by **lumber reject** (Grade 4, **30.2%**) and other grades. **Cruise based volume** accounted for **19.7%** of the total harvest volume in interior in 2010.

Interior crown land harvest totalled **45.6 million m³** in 2010, **BCTS** accounted for **20.4%** of total volume with an average stumpage rate of **$9.78 per m³**, **major tenures and timber licences** accounted for **79.6%** of total volume with an average stumpage rate of **$2.10 per m³.**

Licensees usually have lower stumpage rates than BCTS bidders mainly due to the Tenure Obligation Adjustments for their forest management and road building obligations.

The Coast has a much smaller harvest volume with a much bigger share of federal and private lands harvesting. The total harvest volume **peaked in 2004** and then **dropped dramatically in 2009**. It **climbed back in 2010, increasing by 46%**. Average stumpage rates peaked at $ 22 per m³ in 2003, and then dropped to $9 per m³ in 2006. The increases in 2007/08 reflected the strong demand for cedar. It has now dropped to $4.6 per m³ due to the low coastal log prices caused by the weak lumber market.

Species Mix for 2010 B.C. Coast Harvest (16.4 mil. m³)



Species on the Coast are much **more diverse** than the interior, and the most popular species harvested in 2010 were: **Hemlock,** with a share of **35.2%,** followed by Fir (30.2%), Cedar (20.7%), Balsam (8.7%) and other species.

On the grade side, about **three quarters** of the coast total scaled volume in 2010 were **sawlog grades** (Grade J, H & I), **13.7%** of them were **utility grades** (Grade X & U) and 11.1% were other grades.

Coast crown land harvest totalled **12.2 million m³** in 2010, and **BCTS** accounted for **14.9%** of total harvest with an average stumpage rate of **$22.16 per m³**, **major tenures and timber licences** accounted for **85.1%** of total harvest on the coast with an average stumpage rate of **$1.56 per m³.**

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DATA SUMMARY

Monthly Economic Statistics - March 2011

	Latest Month		Month Ago	M/M Change	Year Ago	Y/Y Change	Current YTD	Previous YTD	YTD/YTD* Change
Lumber Prices *(USD/000 bd ft)*									
SPF 2x4	*Feb 11*	**$291**	$311	-6.6%	$289	0.5%	$301	$260	15.9%
Random Lengths Lumber Composite	*Feb 11*	**$296**	$304	-2.6%	$312	-5.1%	$300	$288	4.1%
SPF 2x10	*Feb 11*	**$336**	$345	-2.7%	$357	-6.0%	$340	$337	0.9%
SPF Stud	*Feb 11*	**$275**	$274	0.5%	$299	-7.9%	$274	$269	2.1%
Cedar 2x4	*Feb 11*	**$650**	$650	0.0%	$650	0.0%	$650	$650	0.0%
Hemlock Squares	*Feb 11*	**$790**	$785	0.6%	$775	1.9%	$788	$770	2.3%
Panel Prices *(USD/000 sq ft)*									
Plywood	*Feb 11*	**$310**	$308	0.8%	$323	-4.1%	$309	$312	-1.1%
OSB	*Feb 11*	**$203**	$210	-3.6%	$239	-15.4%	$206	$221	-6.5%
Pulp & Paper Prices *(USD/tonne)*									
NBSK Pulp	*Feb 11*	**$949**	$949	0.0%	$840	12.9%	$949	$826	14.9%
Newsprint (U.S. Eastcoast)	*Feb 11*	**$627**	$626	0.1%	$532	17.8%	$626	$528	18.6%
CAD/USD Exchange Rate	*Feb 11*	**0.9876**	0.9938	-0.6%	1.0568	-6.6%	0.9907	1.0499	-5.6%
Housing Starts *(000 units)*									
U.S. (Seasonally Adjusted Annual Rates)	*Feb 11*	**479**	618	-22.5%	605	-20.8%	549	609	-9.9%
Canada	*Feb 11*	**182**	171	6.4%	202	-9.8%	176	197	-10.6%
Japan (Wood-based)	*Jan 11*	**36**	44	-18.0%	35	3.2%	36	35	3.2%
B.C. Lumber Production *(000 m^3)*	*Dec 10*	**2,053**	2,273	-9.7%	1,836	11.8%	26,987	22,975	17.5%
Coast	*Dec 10*	**211**	259	18.4%	177	19.5%	2,868	2,421	18.4%
Interior	*Dec 10*	**1,842**	2,014	-8.6%	1,659	11.0%	24,227	20,553	17.9%
B.C. Market Pulp Shipments *(000 tonne)*	*Jan 11*	**392**	414	-5.3%	332	18.1%	392	332	18.1%
B.C. Forest Products Exports *(million $)*	*Jan 11*	**$736**	$822	-10.5%	$610	20.7%	$736	$610	20.7%
Wood Products	*Jan 11*	**$377**	$452	-16.6%	$320	18.1%	$377	$320	18.1%
Pulp & Paper products	*Jan 11*	**$359**	$370	-3.0%	$290	23.7%	$359	$290	23.7%
Shares of B.C. Forest Products Exports Value *(%)*									
U.S.	*Jan 11*	**39.4%**	36.2%	9.0%	47.9%	-17.7%	39.4%	47.9%	-17.7%
China + Hong Kong	*Jan 11*	**31.1%**	34.7%	-10.4%	17.3%	79.4%	31.1%	17.3%	79.4%
Japan	*Jan 11*	**10.6%**	11.8%	-10.2%	12.8%	-17.1%	10.6%	12.8%	-17.1%
Other	*Jan 11*	**18.9%**	17.3%	9.0%	22.0%	-14.0%	18.9%	22.0%	-14.0%
Market Shares of U.S. Lumber Consumption *(%)*									
B.C.	*Dec 10*	**14.8%**	13.7%	7.8%	17.2%	-14.0%	16.1%	15.9%	1.6%
Rest of Canada	*Dec 10*	**12.1%**	14.0%	-13.8%	10.4%	16.8%	11.4%	10.4%	9.9%
U.S.	*Dec 10*	**73.1%**	72.2%	1.2%	72.4%	0.9%	72.4%	73.7%	-1.7%
3rd Country	*Dec 10*	**1.3%**	1.2%	10.0%	1.9%	-30.4%	1.3%	1.7%	-23.9%
B.C. Crown Land Scaled Volume** *(000 m^3)*	*Jan 11*	**5,979**	5,782	3.4%	6,227	-4.0%	5,979	6,227	-4.0%
Coast	*Jan 11*	**602**	820	-26.6%	661	-9.0%	602	661	-9.0%
Interior	*Jan 11*	**5,377**	4,962	8.4%	5,566	-3.4%	5,377	5,566	-3.4%
B.C. Average Stumpage Rate *($/$m^3$)*	*Jan 11*	**$3.86**	$3.88	-0.7%	$4.31	-10.6%	$3.86	$4.31	-10.6%
Coast	*Jan 11*	**$6.87**	$4.35	58.0%	$5.62	22.3%	$6.87	$5.62	22.3%
Interior	*Jan 11*	**$3.52**	$3.81	-7.5%	$4.16	-15.4%	$3.52	$4.16	-15.4%
B.C. Forestry Employment (LFS) *(000 jobs)*	*Feb 11*	**52.6**	52.0	1.2%	52.0	1.2%	52.3	52.4	-0.2%
Forestry & Logging	*Feb 11*	**11.6**	10.8	7.4%	15.3	-24.2%	11.2	15.6	-28.0%
Wood Products	*Feb 11*	**31.5**	30.9	1.9%	26.8	17.5%	31.2	27.7	12.8%
Paper Products	*Feb 11*	**9.5**	10.3	-7.8%	9.9	-4.0%	9.9	9.2	7.6%
B.C. Log Exports									
Volume (*000 m^3*)	*Jan 11*	**315**	375	-15.9%	395	-20.4%	315	395	-20.4%
Value (*million $*)	*Jan 11*	**$29.6**	$38.9	-24.0%	$33.2	-11.0%	$29.6	$33.2	-11.0%

** based on calendar year, change % from the same year-to-date period of the previous. year to the year-to-date of current year.*

*** Preliminary data and subject to change.*

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